



FIBER TO THE HOME REVENUE & FINANCING OPTIONS STUDY SESSION

CITY COUNCIL MEETING

September 22, 2020



Presenters

- Jovan Grogan, City Manager
- Sandeep Krishnamurthy, CityNet Services Director
- Keith DeMartini, Finance Director



Objective

- Update on CityNet Service Enterprise and Fiber-to-the-Home (FTTH) Project
- Present revenue generating and financing options
- Provide guidance to staff on the revenue generating and financing options for the Fiber-to-the-Home (FTTH) project



- I. CityNet Enterprise and Fiber-to-the-Home Business Plan
- II. Revenue-Generating Options
- III. Financing Options
- IV. Discussion, Next Steps & Questions



I. CityNet Enterprise Business Plan

CityNet Update



PART

1
City
Manager's
Remarks

PART

2
Recap

PART

3
Business
Strategies
& Plan



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• PART 1 •

City Manager's Remarks



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Context

- Why is the City in the ISP/Cable TV business?
 - Enterprise launched as a community service for TV in 1971
 - Local, customer friendly history
 - Would the City enter this business today?
 - Pay TV, no
 - Broadband Internet, perhaps but expensive entry
- Scope of today's study session –
 - Fiber to the Home Upgrade Plan
 - Financing the Upgrade



Backdrop - Why stay in the business?

■ CityNet operates as an Enterprise

- Goal: provide a service to the public and ROI to the City's General Fund
- Internet access has become a utility and an expectation from the public
- Bridging the digital divide more important than ever to American society – other cities looking to provide internet service
- San Bruno needs reasonably priced access to the internet
- City revenues do not permit offer of “no cost” internet access
- Low cost access available to some disadvantaged and underserved groups in the population
- CityNet subscribers are not “monetized” - unlike private companies, their data has not and will not be sold to create additional revenue
- CityNet enterprise tracking closer to positive ROI



What is required to continue in the business?

- In order to continue and “win” in the business:
 - Infrastructure investment required in the form of upgrades to technology and equipment
 - Latest CityNet infrastructure investments have been wins:
 - Router Upgrade Project – increased internet connectivity before COVID hit San Bruno
 - Multi-dwelling Units upgrade to fiber – enables 68% of the 2,500 upgraded condo population to access internet speeds up to 1 Gigabit per second
 - Next logical step – upgrade single family homes?



The Last 24 Months

- CityNet has made numerous changes in its operations:
 - Reduced costs through contract negotiations with service providers
 - Increased internet capacity
 - Introduced a new rate card in 2018-19 based on an internet first approach; increased rates in April 2020
 - Moved capital costs from CapEx to OpEx as part of a business revamp strategy
- Results:
 - 2017-18 Operational Deficit: \$1,265,248
 - 2018-19 Operational Deficit: \$872,089
 - 2019-20 Operational Deficit: \$270,275
 - 2020-21 Projected Deficit: \$0



Parts 2 and 3

Council will receive updates on:

- I. San Bruno CityNet Operations
- II. Subscriber Data & Trends
- III. Customer Experience (C/X)
- IV. Enterprise Strategy
- V. Fiber Upgrade Plan



• PART 2 •
Recap



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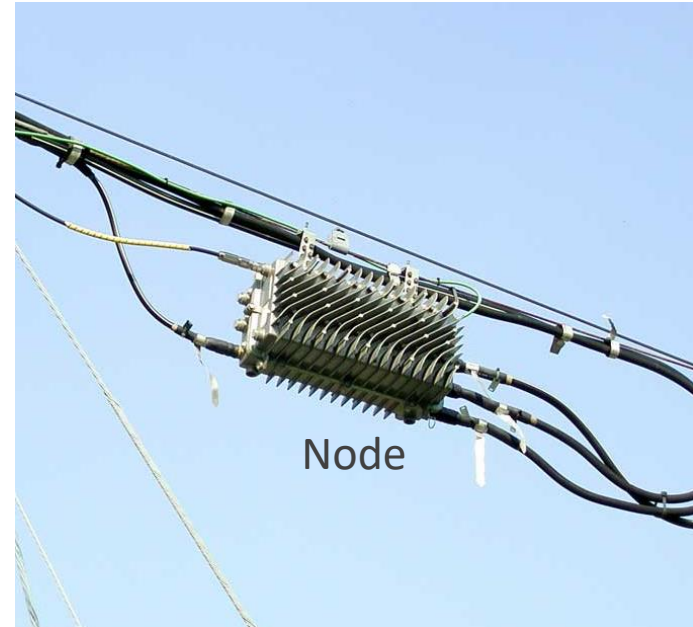


System Data

CATV System
Community
Antenna TV



Cable TV
System



San Bruno CityNet

Fiber Coax Based

 **750**Mhz

Serving San Bruno

 **45%**

Miles of Cable

 **89**

Owns & Operates

 **Channel 1**

CityNet Operations



System Data

San Bruno Coverage

100% homes passed

Age of Head End

22 years

Age of Hybrid Fiber Coaxial Cable Plant

45 years

Internet Service Provider (ISP) Business Launched

2002

Video Channels Offered:

368 (105 HD); 4,000 hours Cable VOD

Internet Speeds

| INTERNET SPEED | SERVICE AREA | COMPETITION |
|----------------|---|-------------|
| Up to 300 Mbps | 100% of homes passed after router upgrade (completed November 2018) | Yes |
| Up to 1 Gbps | 17% of homes passed by Fiber | Partial |



CAPITAL INVESTMENTS THROUGH SAN BRUNO CITYNET'S HISTORY

| PROJECT | COST | YEAR | COMMENTS |
|---|---------------------|-----------------|---|
| 270 Mhz System and 46.7 miles of cable | \$565,000 | 1971 | 12 channel system launched |
| Additional 13 miles of cable | \$86,000 | 1975 | Expanded to 24 channels, with Set Top Boxes |
| 450 Mhz System Upgrade | \$2,200,000 | 1985 | 60 channels fully addressable |
| 750 Mhz System Upgrade | \$7,100,000 | 1999 | 117 channels; high speed data |
| ISP business launch | \$300,000 | 2002 | Launch of broadband internet |
| Cable VOD launch | \$425,000 | 2004 | Enhanced system functionality |
| Router Upgrade; 10k CMTS | \$1,700,000 | 2007 | Internet and phone capacity increase |
| System upgraded to 100% digital | \$230,000 | 2008 | Increased channel capacity |
| Upgrade to Arris E6000 | \$450,000 | 2012 | Enabled enhanced monetization of capacity |
| Router Upgrade with 10 Gigahertz Cards | \$894,800 | 2014 | Increased internet capacity |
| Upgraded VOD Storage | \$200,000 | 2015 | Greater Cable VOD capacity |
| CAP 1000 Equipment Upgrade | \$115,000 | 2017 | Increase HD channel capacity |
| MDU Fiber Projects (Shelter Creek, Peninsula Place & Crystal Springs) | \$2,200,000 | 2016-18 | Fiber into select MDUs |
| Router Upgrade Project | \$1,600,000 | 2018 | Increased internet capacity |
| | \$18,065,000 | 47 Years | |



2019-2020 & Ongoing Capital Improvements

- CapEx to OpEx
 - Moved headend to remote location. Temporary operational expense instead of capital funded equipment replacements. Supports strategic shift to IPTV
 - Eliminated bulk inventory acquisitions – just in time replacements
- Ongoing/Upcoming
 - Disaster recovery implementation
 - Tap and node replacements
 - Cyber security buildouts
 - Small scale fiber rollouts
 - Move on premise Call Manager to the cloud





San Bruno CityNet's Changes in 2018-19



NEW MARKET LEADING PACKAGES LAUNCHED

Internet plus local TV at low prices.



NEW LOOK & FEEL

Updated TV Guide on Set Top Boxes completed in April 2019



NEW LANGUAGES NOW AVAILABLE IN BASIC

New Chinese, Filipino and Korean channels now included in Basic Programming. Spanish channels already available.



LOW COST PHONE

\$7.50/month phone line now available!



NEW RATE CARD

Implemented on February 01, 2019



PERFORMANCE IMPROVEMENTS

Increased internet capacity, speeds and reliability.



NEW LOGO AND MISSION

Rebranding and Internet first product orientation



COST CONTROLS

Card Processor changed – 30% savings

Phone line costs lowered – 59% cheaper

Network monitoring costs lowered – 52% lower



CHANNEL 1

HD upgrade plan developed



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Changes in 2019-20 and Coming Soon in 2020-21



FREE INTERNET OFFER FOR STUDENTS IN NEED

Offer introduced in April 2020



WHOLE HOME WI-FI

New product ready to launch in November – December 2020

REMOTE HEADEND

Moved equipment requirement from CapEx to OpEx in February 2020. System ready to move away from obsolete set top boxes and towards IPTV in 2021

NEW COST CONTROLS

Reduced pricing for improved wholesale Internet connectivity from July 2020 –

33% savings
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COVID PROTOCOLS

Enterprise has been functional during lockdown. System has performed well during 100% surge in internet usage and 50% increase in TV viewership



NEW INTERNET PACKAGES

Coming soon – internet and wi-fi packages by 1Q 2021



CYBERSECURITY

Improved protocols



CHANNEL

Viewership up as Channel has become conduit for City's COVID related public information. Live streaming commenced



Fiber Builds In Process

- Fiber Upgrade Plan: Detailed upgrade plan developed over past two years
- Areas for small scale fiber rollouts identified:
 - Spyglass Road
 - Florida Park Neighborhood
 - Mirasol Community
- Fiber plans for New Developments in San Bruno:
 - D.R. Horton development near Skyline College – completed and in operation
 - Mills Park



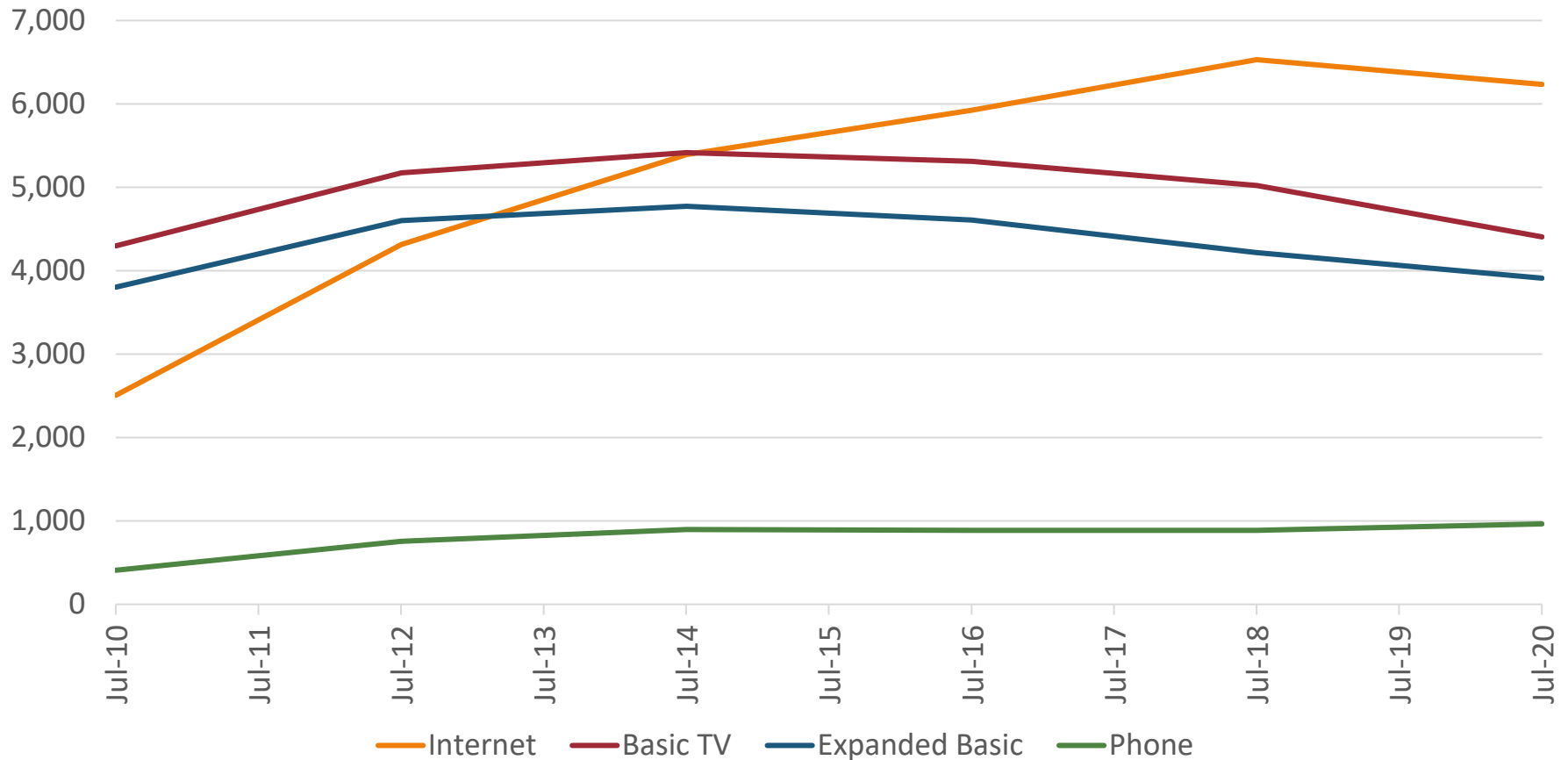
Fiber Builds In Process (continued)

- Bayhill, including realignment of Grundy Lane – project underway
- SBRAC
- 500 Sylvan Avenue
- New Business Development:
 - Rural Digital Opportunity Fund: Reverse auction by the Federal Communications Commission
 - SAMCAT Fiber Link: CityNet as potential ISP to cities in San Mateo County

10-Year Subscriber Trends



10 Year Trends



HIGH-LEVEL Trend Analysis of Subscriber Data over last decade



| PRODUCT | SUBSCRIBERS | | | | | | | |
|-------------------|-------------|-----------|-----------|-----------|-----------|-------------|-----------|-----------|
| | July 2010 | July 2012 | July 2014 | July 2016 | July 2018 | 2020 Detail | | |
| | | | | | | March 2020 | July 2020 | Sept 2020 |
| Internet | 2,506 | 4,313 | 5,392 | 5,926 | 6,531 | 6,332 | 6,236 | 6,224 |
| Basic TV | 4,298 | 5,172 | 5,416 | 5,313 | 5,022 | 4,805 | 4,404 | 4,510 |
| Expanded Basic TV | 3,802 | 4,600 | 4,774 | 4,607 | 4,218 | 4,008 | 3,910 | 3,883 |
| Telephone | 408 | 756 | 897 | 887 | 885 | 780 | 965 | 1,034 |

Internet Revenues/Direct Expenses over last decade



| PRODUCT | | REVENUES/ DIRECT EXPENSES | | | | | |
|----------|---------|---------------------------|-------------|-------------|-------------|-------------|-------------|
| | | 2009-10 | 2011-12 | 2013-14 | 2015-16 | 2017-18 | 2019-20 |
| Internet | Revenue | \$2,311,873 | \$2,526,765 | \$2,670,837 | \$3,029,756 | \$4,007,748 | \$3,968,912 |
| | Expense | \$770,249 | \$791,831 | \$736,510 | \$727,755 | \$836,086 | \$687,215 |

Television Revenues/Direct Expenses over last decade

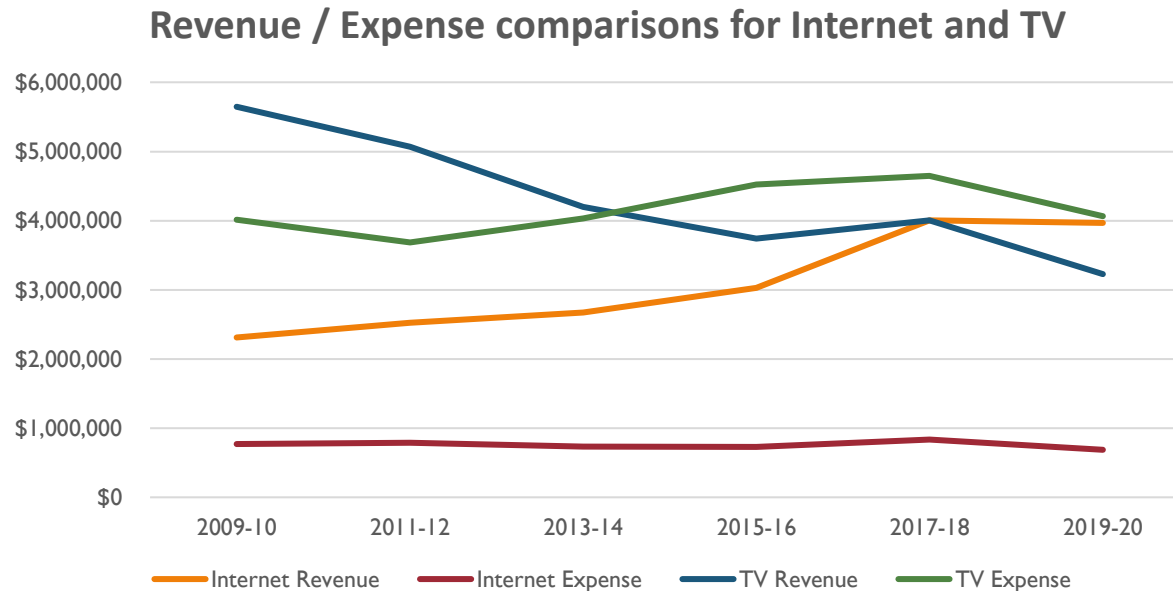


| PRODUCT | | REVENUES/ DIRECT EXPENSES | | | | | |
|------------|---------|---------------------------|-------------|-------------|-------------|-------------|-------------|
| | | 2009-10 | 2011-12 | 2013-14 | 2015-16 | 2017-18 | 2019-20 |
| Television | Revenue | \$5,650,270 | \$5,069,389 | \$4,201,082 | \$3,741,902 | \$4,007,748 | \$3,228,126 |
| | Expense | \$4,015,727 | \$3,687,594 | \$4,032,596 | \$4,521,825 | \$4,647,280 | \$4,066,352 |

Conclusion: Internet is the profitable part of the business



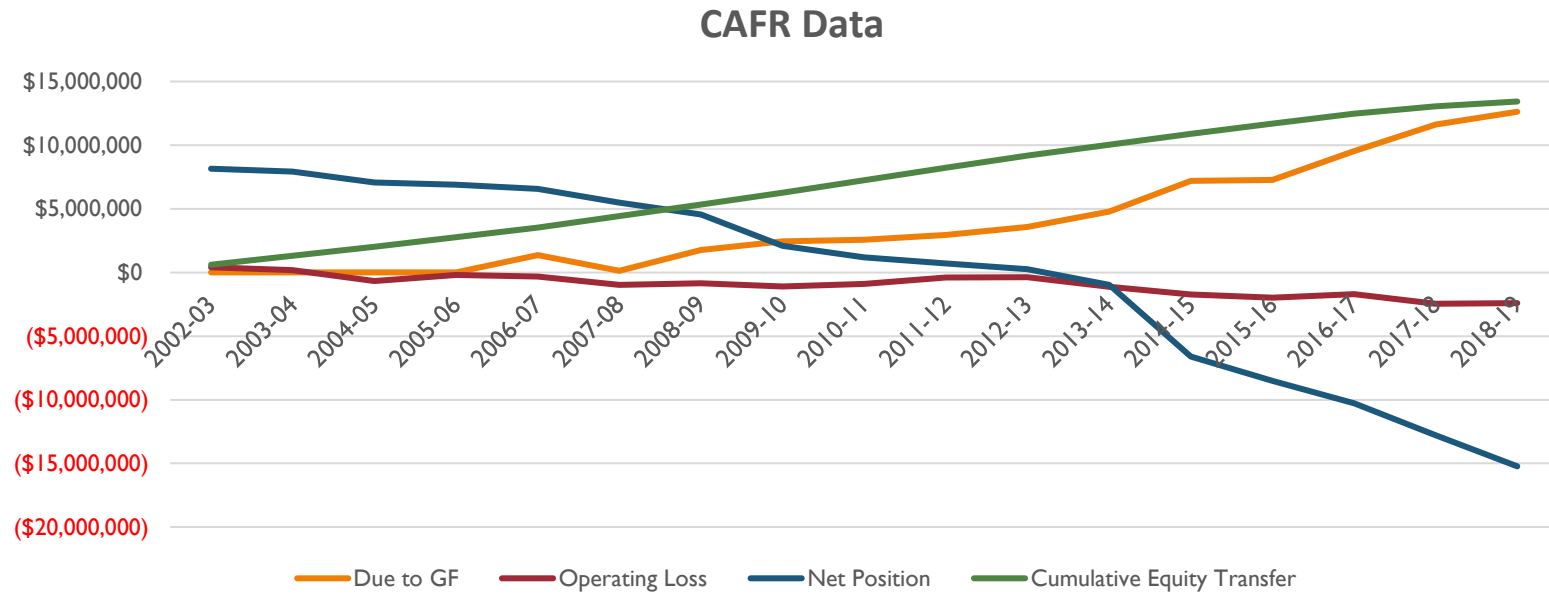
Product line comparisons



- Key conclusions:
 - Internet more profitable
 - TV required to retain subscribers
 - Aligns with overall strategy in the business plan to transition to an internet focused model that retains customers and transitions them to IPTV and streaming, which is where the country/industry as a whole is headed.



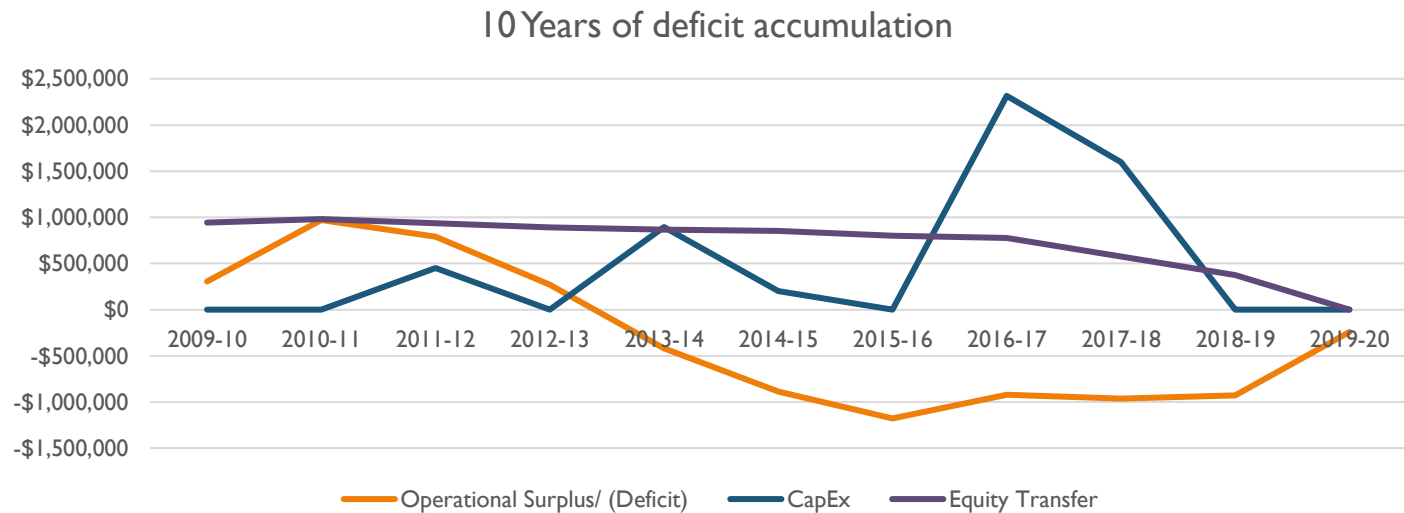
CAFR Data



■ Key conclusions:

- Per CAFR, Operating Loss evident since 2004-05
- Net Position remained positive through 2012-13
- Cumulative Equity Transfer through 2012-13: \$9,171,384
- Cumulative Equity Transfer through 2018-19: \$13,417,034
- Net Position through 2018-19: (\$15,222,735)

Accumulation of Deficit



- Key points for period 2010-20:
 - Cumulative Operational Deficit: \$3,204,151
 - Capital Expenses: \$5,459,800
 - Equity Transfer: \$7,998,269

Positive ROI from Fiber Investment in Multi-Dwelling Unit (MDU) Residential Complexes



17% of San Bruno homes have San Bruno Cable's fiber

All fibered homes are in **MDUs**

Cost of fiber install: **\$2,200,000**

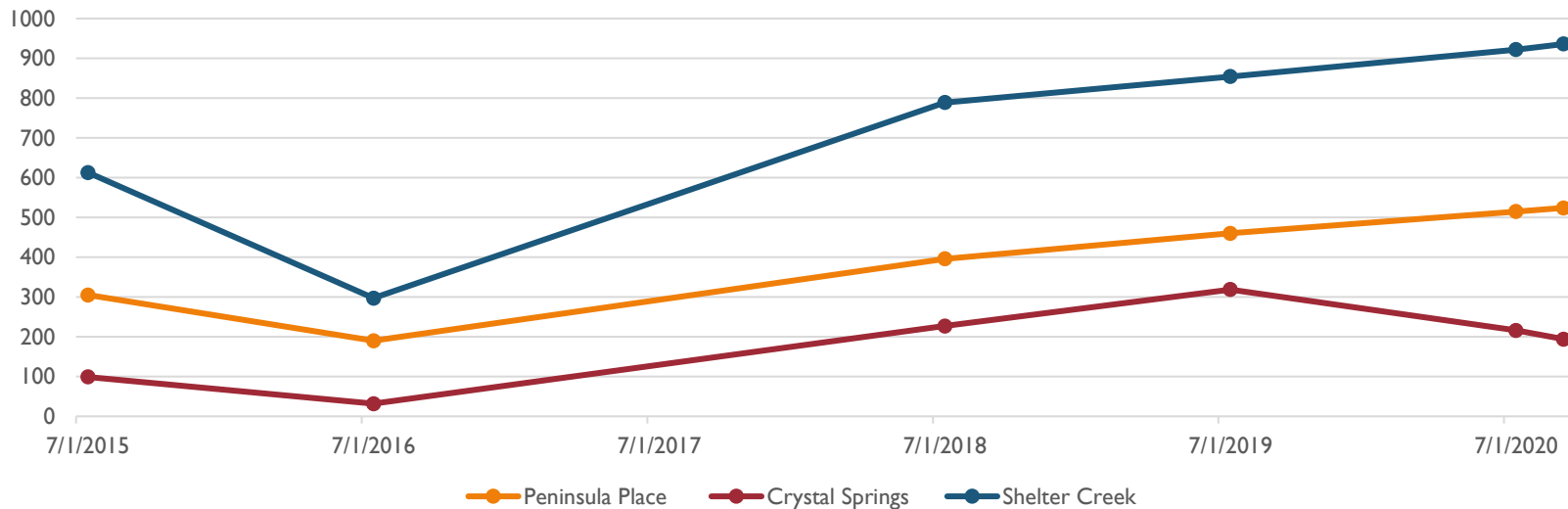
Subscribers generate **\$2,151,984** in annual subscription revenue with **\$846,156 (39%)** in post fiber revenue growth

| PROPERTY | ACCESS RIGHTS | UNITS | SERVICABLE HOMES | SUBSCRIBERS (% SERVICE PENETRATION) |
|-----------------|--------------------|--------------------|--------------------|-------------------------------------|
| Peninsula Place | Non-exclusive | 860 | 819 (95%) | 524 (64%) |
| Crystal Springs | Non-exclusive | 437 | 415 (95%) | 216 (52%) |
| Shelter Creek | Exclusive at start | 1,296 | 1,241 (96%) | 936 (75%) |
| Total | | 2,593 (17%) | 2,475 (95%) | 1,676 (68%) |

Fiber subscribers through COVID and the last decade



Subscribers in 3 Fiber Installed MDUs - 2015-20



■ Conclusions:

- Cumulative subscriber growth in MDUs due to 2016-18 Fiber rollout: 637 (62%)
- Crystal Springs: Fiber competition from AT&T has led to subscriber losses
- Shelter Creek penetration best due to exclusive access at start
- Fiber penetration at cumulative 68% better than 45% system penetration



Increased Traffic During COVID-19

- Internet Traffic – Up over 100% from 7 to 17 Gigabit/day
- TV Traffic – Viewership up by 50% to 22 million minutes per month



Customer Experience (C/X)

- CityNet's C/X frequently called into question due to:
 - In home service outages
 - Partial system outages
 - Unanswered customer calls
 - Subscriber change notifications late or lacking
- In Home Service Outages:
 - Consumer Premise Equipment is part of dated ecosystem – more defects



Customer Experience (C/X)

- During COVID, pressure greater on system – higher levels of usage
- Technicians in home visits resumed in August – gradual decrease in complaints expected
- Partial system outages:
 - 83% of the system relies on technologically dated HFC infrastructure
 - HFC equipment reliant on power grid with increasing fluctuations
 - Staff in high maintenance mode to keep system functional



- Summary:
 - System's CRM inadequate; improvements necessary and planned
 - Valid bases for customer complaints – TV prices, technology related faults
 - Enterprise working hard to maintain services to over 7,000 San Bruno homes

C/X - Offsite Technical Support and After Hours Call Statistics – 2019-20



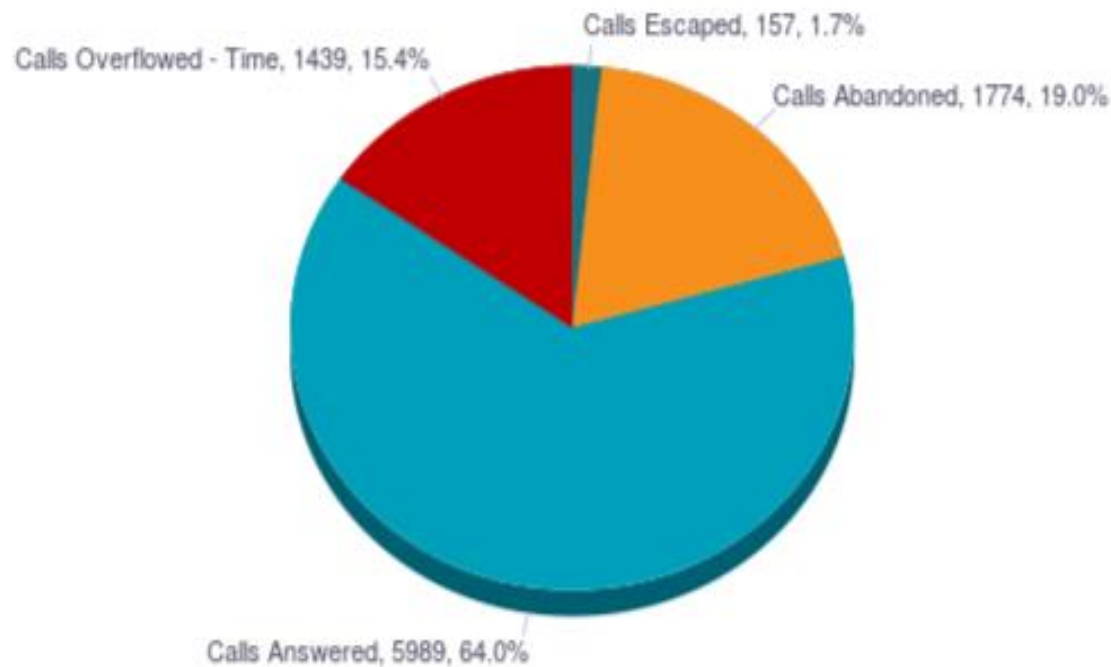
| | CALLS | | | | | | | | | | | |
|----------------------|----------|----------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | Jul 2019 | Aug 2019 | Sept 2019 | Oct 2019 | Nov 2019 | Dec 2020 | Jan 2020 | Feb 2020 | Mar 2020 | Apr 2020 | May 2020 | Jun 2020 |
| Calls Received | 981 | 620 | 617 | 713 | 695 | 554 | 607 | 1,876 | 1,879 | 1,188 | 963 | 1,332 |
| Calls Answered | 625 | 478 | 519 | 635 | 634 | 488 | 483 | 1,543 | 1,192 | 861 | 639 | 830 |
| Cable Customer Calls | 400 | 312 | 309 | 86 | 383 | 309 | 264 | 733 | 440 | 494 | 373 | 424 |
| Fiber Customer Calls | 58 | 37 | 37 | 17 | 28 | 23 | 58 | 53 | 435 | 69 | 49 | 63 |

 Work from home

CityNet's CSR Call Activity – March 01 to August 31, 2020



Call Center Activity

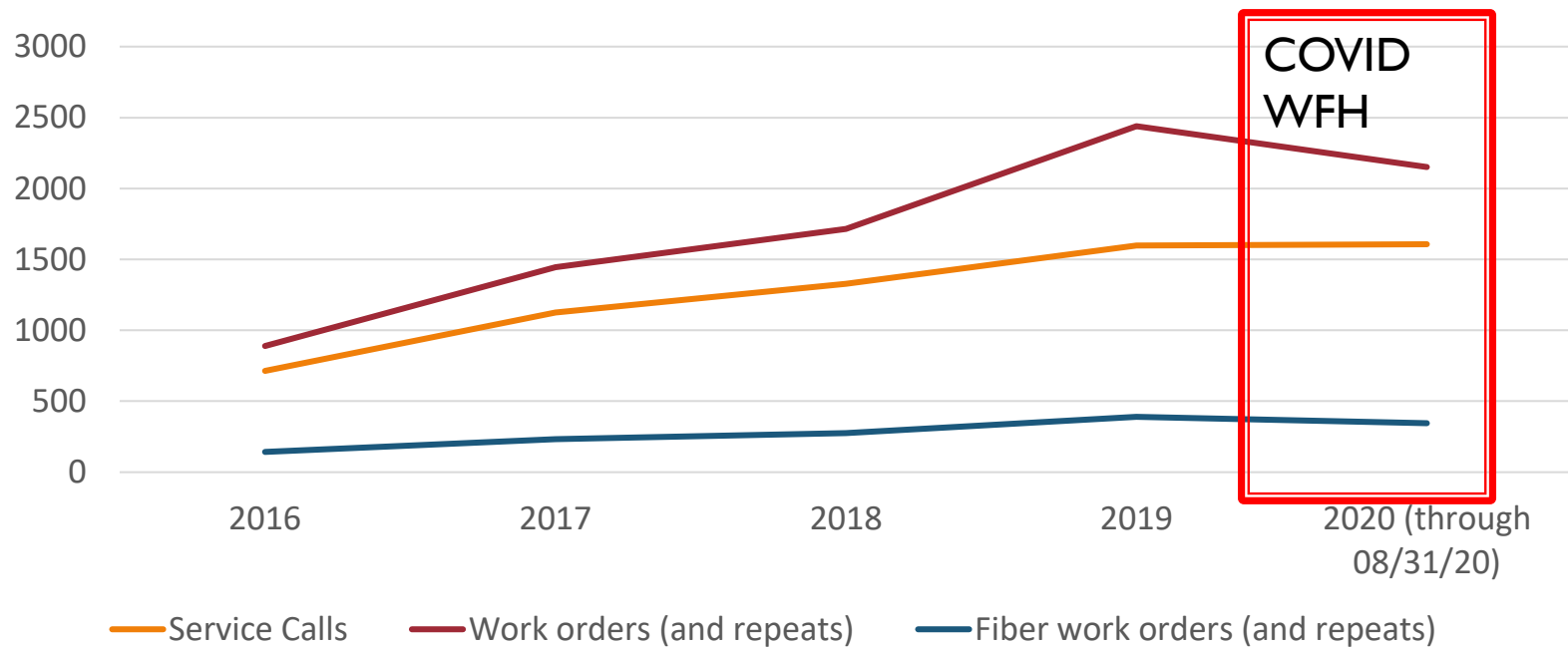




Call Volume increased significantly during COVID-19

Work Order Data – 2016-2020

Work Orders as a result of calls, 2016-20





Call Volume Management

- Reduced number of rings on internal phone system and offsite call support prior to transition to call back feature
- Self-help videos on website, produced in house by Programming Manager
- Support calls from technicians to walk customers through self-help repairs
- In home visits resumed by technicians in August and subject to comprehensive COVID protocols
- Coming soon:
 - Front office reopen for limited appointments in conjunction with City HR and Facilities
 - Automated trouble ticket feature on website for use by customers



San Bruno CityNet's Status - Summarized

49

Enterprise has provided competitive service to San Bruno for 49 years; technological attrition is creating increasing levels of friction for the business



Enterprise has embarked on its new, approved business plan in February 2019 with limited success pending an upgrade



Internet usage on San Bruno Cable is exploding—1 Gigabit to 17 Gigabit growth from 2011 to 2020



COVID and Work From Home have further emphasized the benefits of reliable internet service in the community



Limited investment in installing fiber in select apartment complexes have yielded good multi-year results. Select single family residential rollouts and other development in the works



System needs updated delivery technology to provide better internet speeds – fiber is the futureproof way to proceed



A new business model has trended the Enterprise correctly but will prove inadequate over time unless underlying technology is upgraded and C/X significantly improved



Crossroads

Must proceed with a comprehensive fiber upgrade if we are to compete effectively



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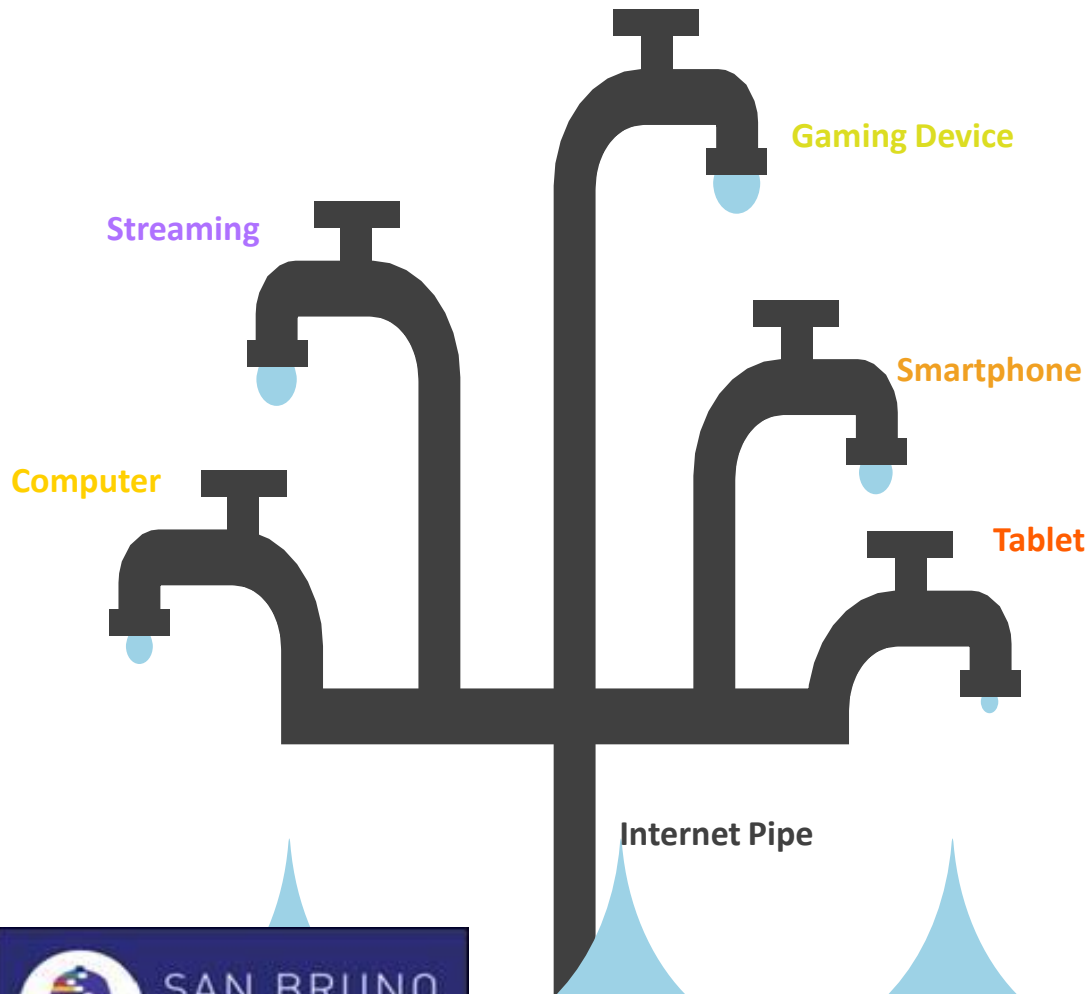
Business Strategies & Fiber Upgrade Plan



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How Internet Speed Works



- **Suzy is gaming online** against three of her friends. The high-quality graphics and sound of the online video game are using a lot of bandwidth.
- **Mom is trying to stream a movie.** Because Suzy is already using a lot of bandwidth, the movie keeps buffering.
- **Jimmy is on the computer** surfing the web for a research paper and web sites are slow to load as a result of Suzy and Mom using bandwidth.
- **Joey is in his room snapping and uploading selfies** to his social media accounts. Uploads are taking longer than normal.
- **Dad is using the tablet** to find ideas for dinner and it is taking forever. Looks like dinner will be late tonight. Time to update the internet speed.





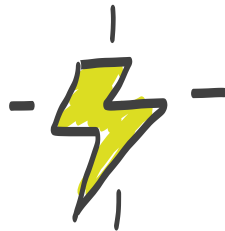
What is Fiber to the Home (FTTH)?

It is a relatively new technology to transmit digital data over fiber lines which extend all the way into the home.

FTTH is remarkable because of...

30-50

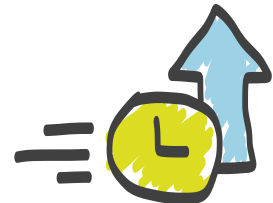
Long life: 30–50
years at least



No electricity in
the fiber lines



No radiation
hazard



Very scalable
internet speeds



Fiber Optic vs. Cable Internet

What's the difference?

Fiber

- Data sent via small, flexible strands of glass that transmit light
- Faster over greater distances

Cable Internet

- Uses cable TV infrastructure to transmit data
- Connection shared with neighbors



Faster and more reliable

- Delivered on a dedicated line and more consistent in speed even during peak usage times.
- It is also less likely to go down during a power outage.
- No electricity involved = reduced fire risk
- Installed to your home and harder to hack.
- Can withstand more temperature fluctuations and be submerged in water.



Fiber Will Be Better Than 5G for In-Home Internet

| | SBC Fiber | 5G |
|--|----------------------|--|
| Performance | 1GB Down/Up Standard | 300 Mbps Standard (1GB possible Source: Verizon 5G release) |
| Performance During San Bruno Peak Data Usage (9-10 PM) | No variance | Varies per traffic at tower |
| Cell Towers | None | Up to 240 per square mile (60 per carrier) |
| Electromagnetic Radiation | None | Thermal and Non-thermal |
| In home Wi-Fi | Available | Available |
| Restrictions on Reception | None | Rain fade, line of sight restriction and signal blockage by foliage |
| Uptime (Reliability) | 99.99% | N/A |
| Customer Service | Local & hands on | Remote |

Fiber Buildout Rationale

Consumers



More apps =
more internet
bandwidth &
speeds



More
bandwidth
& faster speeds
= fiber



Connected
appliances



Internet
video

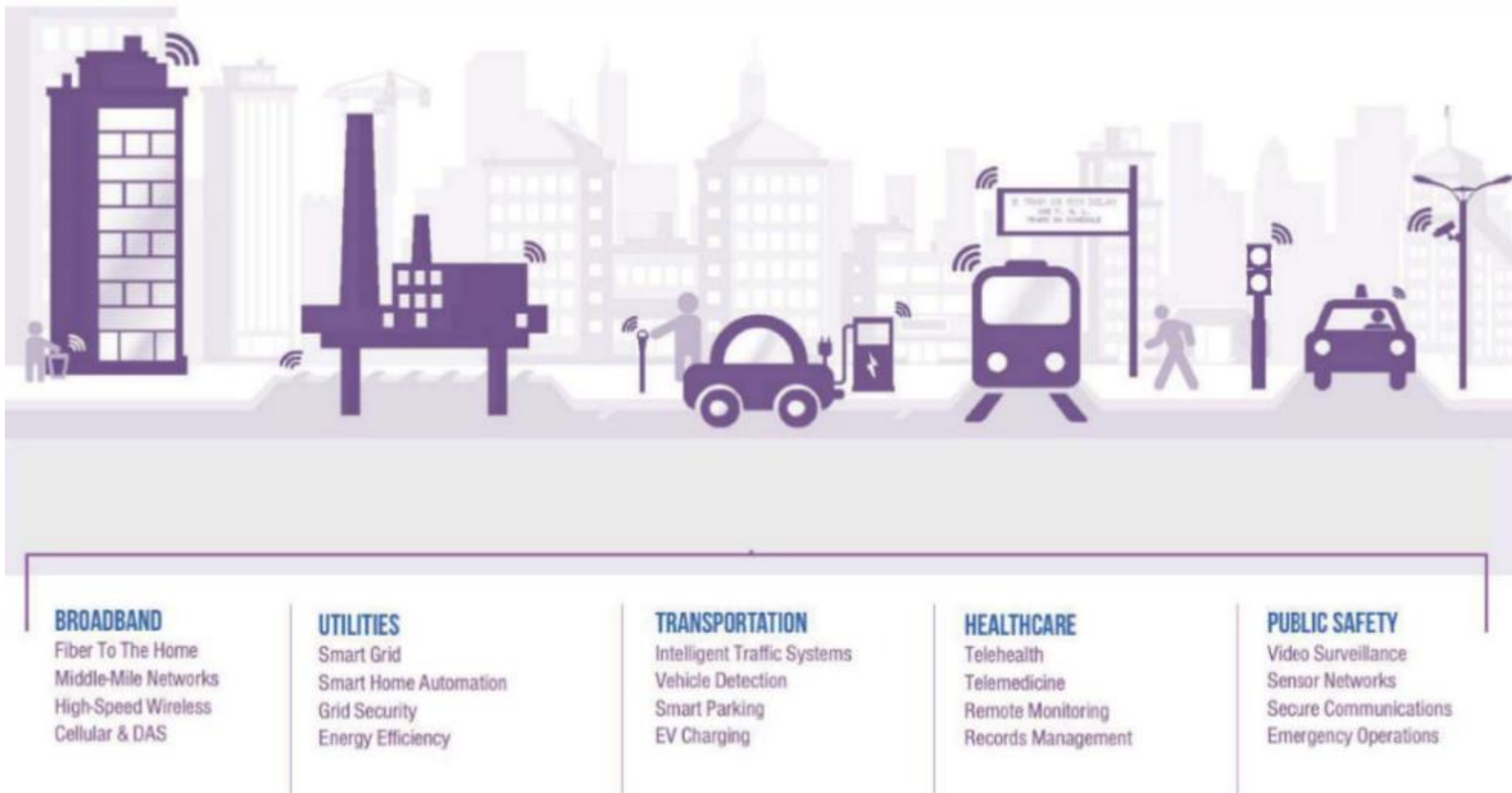
Fiber Buildout Rationale



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Fiber Buildout Rationale



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Fiber Buildout Rationale (Continued)



Fiber...

Improves property
values by

3%

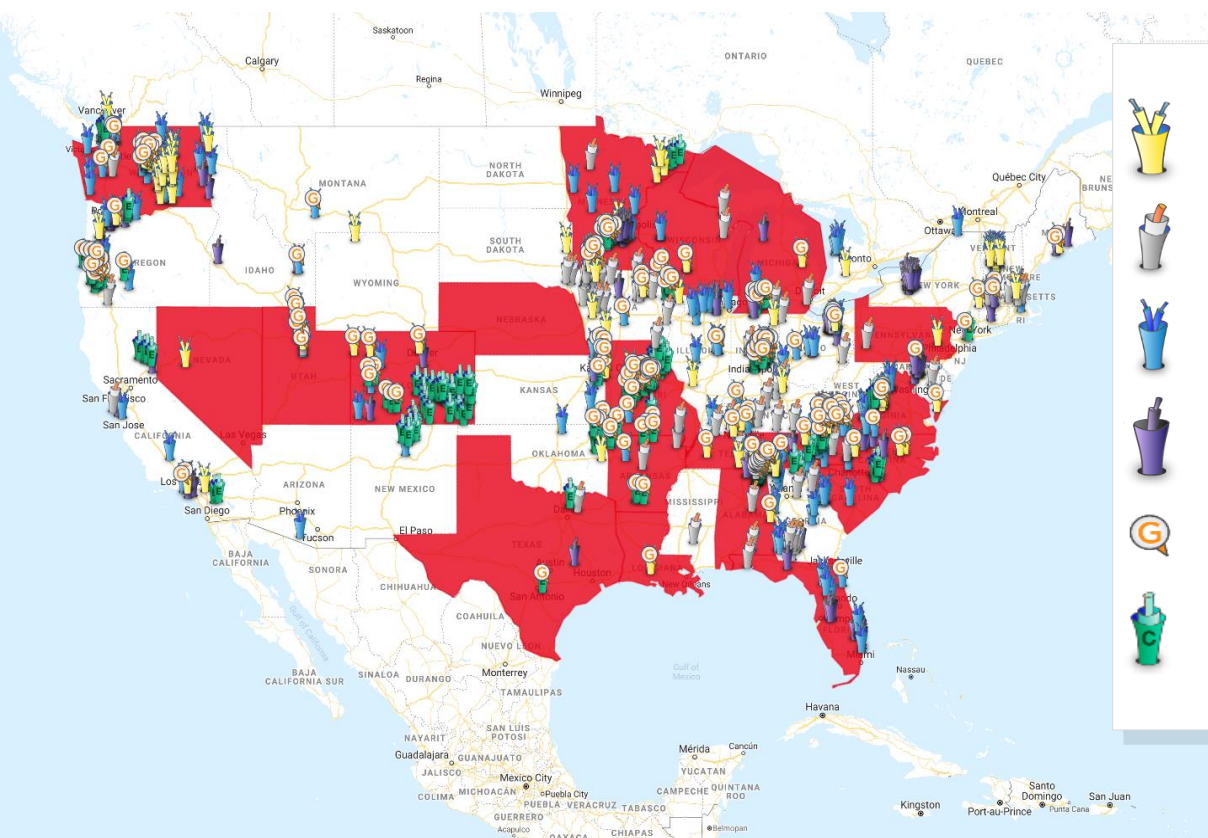
Builds GDP by

1%

Improves rental
values by

8%

State of American Fiber & Broadband Networks – 2020



63 publicly owned FTTH citywide networks



63 publicly owned cable networks



237 communities publicly owned fiber service available to business districts



120 communities with publicly owned dark fiber



230 communities in 27 states with 1 gigabit publicly owned networks



330 communities served by utility companies

San Bruno CityNet's Business Strategy, Adopted 2019



ISP Strategy



3 Services Strategy

TV

Internet Access

Phone



“Thick Pipe, Thin Pipe” Strategy

100% Last Mile Subscriber Relationship

Shared Subscriber Relationship



Business Strategies and Plan

System Strategies

PRODUCT STRATEGY

- Gig Service + Local TV
- OR**
- Best available speed + Local TV during rollout

PRICING STRATEGY

- No contracts
- Reasonable price points
- “One stop bill”

CONTENT ACQUISITION STRATEGY

- Data based curation
- Licensing cost control

Enterprise Business Strategy

ISP Focus, TV and Phone add on services

MARKETING STRATEGY

- Grassroots campaigns
- Informational + Themed messaging
- No promotions—Everyday low price!

TECH STRATEGY

- Standardization
- Multicast IP
- BYOD

OPERATIONAL STRATEGY

- Reduce reasons for complaints — defective tap replacement
- KPIs—no fault days, fewer truck rolls
- System wide solution deployment

Key :

- Underway
- Limited implementation
- No action taken

Why have 3 Scenarios for the Plan?



\$12.24M

Requested Fiber
Capital Expenditure

Over a multi-year period,
unknown variables can play
a role in business outcomes

Three business scenarios have been considered in the Business Plan:

Conservative

Moderate

Aggressive



Plan Timeline

15 Years
\$12.24M

Infrastructure Spend

Subscribers %

Conservative

45-56%

Moderate

45-66%

Aggressive

45-68%

Fiber Upgrade Loan Repayment : 20 – 30 Years

Loan Payback

15 Years

13 Years

10 Years



Plan Revenues: Breakdown and Comparison

| | Actual Prior to Jan 2019 | Projected Range 2020-2034 |
|--|--------------------------|---------------------------|
| Average Revenue per User (ARPU), Monthly | \$110 | \$111–139 |
| Contribution to ARPU | | |
| Internet | 37% | 44–56% |
| TV (Video) | 42% | 38–49% |
| Telephone | 4% | 1-5% |



Proposed Fiber Upgrade Project Costs

\$6,804,000

Construction Costs

\$3,836,995

Equipment

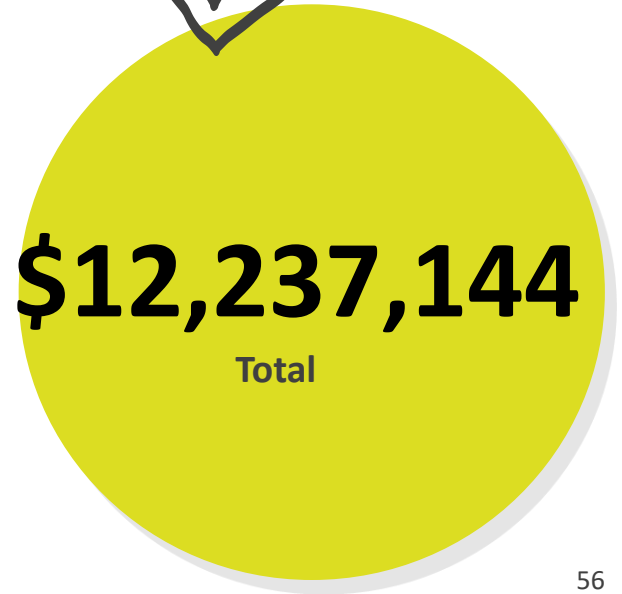


\$10,640,995 + \$1,596,149 = \$12,237,144

Working Capital

Contingency (15%)

Total



56



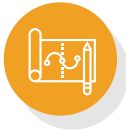
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Fiber Rollout Plan



Project Consultant, 4 Temporary Technicians, Contractors



7 Rollout Phases, 93% aerial, 2,692 Poles



Overlashing, an FCC permitted method, will be used to replace hybrid fiber coaxial (HFC) cable with fiber



Every home and business will be passed by our fiber. Each customer will have a fiber drop – true fiber to the home



Rollout cost vastly lower than comparable rollouts – existing business, no pole permits, experienced team, cost controls

Poised for Success

Fiber rollout planned for timely, on budget execution



Questions on Parts 2 and 3?

10-min Break?



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II. Revenue Generating Options



How to fund FTTH?

■ Revenue Generating Options

1. Increase CityNet subscription fees
2. Implement a surcharge on CityNet fees
3. Development Impact Fees
4. User Utility Tax (UUT)

■ Financing Options

5. Community Benefits
6. Measure G District Sales Tax
7. Debt Issuance



Increase CityNet Service Fees

1. Increase monthly subscription fees to fund capital needs
 - Increase base fee for specific services
 - Implement a surcharge per subscriber, similar to the technology fee on building permits, to help fund capital, equipment and vehicle investments
2. If a 5% surcharge on a subscriber's bill were implemented in FY2020-21, approximately \$541,000 would be generated.

City Council approval is required to increase fees



3. Development Impact Fee

- Citywide development impact fee (DIF) was established on May 1, 2019
- A one-time fee on new development to pay for new infrastructure improvements required to serve growth
- Depending on the land use of the development project, between 1-2% of the DIF is dedicated to CityNet Services
- To date, \$110,000 DIF fees have been collected
- Ability to borrow of DIF program funds for other uses when appropriating funds by the City Council
 - Example: Use Public Safety DIF funds for Utility project



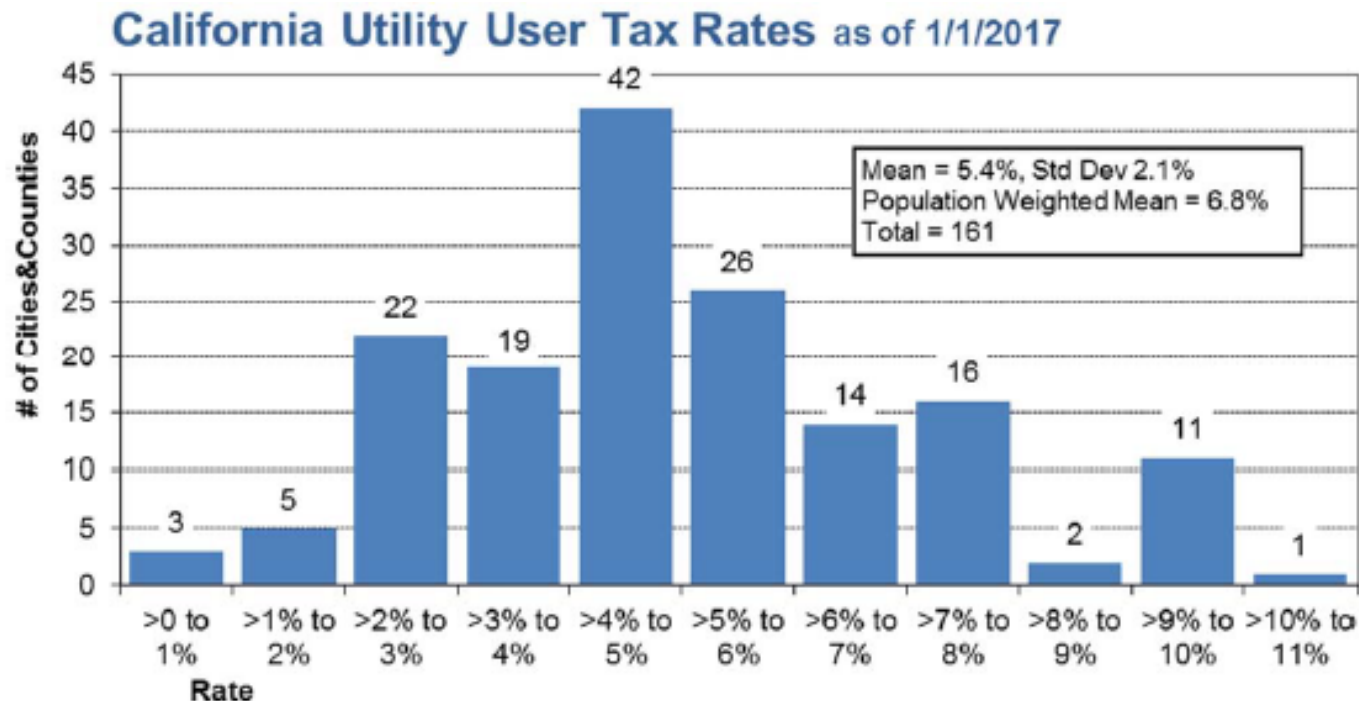
3. Development Impact Fee, cont.

| Land Use | Community Facilities | | Public Safety | | General Gov't | Trans- portation | Utilities | | | Total Fee |
|---|----------------------|---------|---------------|--------|---------------|---------------------|-----------|-------------|------------------|-----------------|
| | Parks | Other | Police | Fire | | | Water | Storm Drain | CityNet Services | |
| Residential (per Unit) | | | | | | | | | | |
| Single Family | \$12,442 | \$2,982 | \$162 | \$983 | \$1,621 | \$3,374 | \$999 | \$688 | \$532 | \$23,783 |
| Multi-Family | \$11,679 | \$2,800 | \$222 | \$922 | \$1,521 | \$2,610 | \$938 | \$646 | \$499 | \$21,838 |
| | | | | | | | | | | |
| Non-Residential (per Sq.Ft. or Room) | | | | | | | | | | |
| Office (per Sq.Ft.) | \$7.14 | \$1.48 | \$0.01 | \$0.56 | \$0.93 | \$6.95 | \$1.02 | \$0.40 | \$0.31 | \$18.79 |
| Industrial (per Sq.Ft.) | \$2.84 | \$0.59 | \$0.01 | \$0.22 | \$0.37 | \$2.78 | \$0.81 | \$0.16 | \$0.12 | \$7.89 |
| Retail (per Sq.Ft.) | \$4.61 | \$0.96 | \$0.25 | \$0.36 | \$0.60 | \$8.95 | \$10.24 | \$0.26 | \$0.20 | \$26.43 |
| Hotel (per Room) | \$1,170 | \$243 | \$3 | \$92 | \$152 | \$1,527 | \$1,109 | \$65 | \$50 | \$4,410 |

- Based on current development pipeline, up to \$9 Million would be generated in development impact fees
 - Timing of DIF payments are difficult to project
 - Many citywide capital improvement and enhancement needs

4. User Utility Tax (UUT)

- Tax imposed by a city on the consumption of utility services
 - May include electricity, gas, water, sewer, telephone, sanitation and cable television
- Tax rate and use of revenues are determined by the City
- All UUT levies in California are general purpose taxes





UUT – San Mateo County Cities

| City | FY2018-19 Tax Revenue | Tax Rate | Tax on Utilities |
|----------------|--------------------------|----------|---|
| Daly City | \$5.9 Million | 5.0% | Telecommunications, video/cable, electricity and gas |
| East Palo Alto | \$1.5 Million | 5.0% | Telecommunications, video/cable, electricity, gas and water |
| Menlo Park | \$1.7 Million | 1.0%* | Telecommunications, electricity, gas and water |
| Pacifica | \$1.7 Million | 6.5% | Electricity and gas |
| Portola Valley | \$0.9 Million | 4.5%** | Telecommunications, electricity, gas and water |
| Redwood City | \$9.4 Million | 5.0% | Telecommunications, video/cable, electricity and gas |

* Menlo Park – 2006 voter approval of 3.5% on electricity, gas and water and 2% on telecommunications. A 2007 City Council resolution reduced the tax rate to 1%.

** Portola Valley – In 1985, original UUT was set at 6.5%. The results of a special election in 1993 reduced the rate to 5.5%. The results of a 2006 election reduced the rate further to 4.5%.



UUT – Election

- Community polling and professional consulting support
- UUT ordinance development and City Council approval
 - Identify utilities to tax at what percent and remittance process
- General Election placement and simple majority required to approve
- Next possible election – November 2022



UUT - Revenue Projection

| Utility | Source | 1% Estimate UUT | 3% Estimate UUT | 5% Estimate UUT | 7% Estimate UUT |
|------------------|----------------|--------------------|--------------------|--------------------|---------------------|
| Electricity | Similar Cities | \$278,296 | \$834,889 | \$1,391,481 | \$1,948,073 |
| Gas | Similar Cities | \$91,262 | \$273,786 | \$456,311 | \$638,835 |
| Water | City | \$153,593 | \$460,780 | \$767,967 | \$1,075,153 |
| Sewer | City | \$166,992 | \$500,976 | \$834,960 | \$1,168,944 |
| Sanitation | Recology | \$78,202 | \$234,607 | \$391,012 | \$547,417 |
| Telephone | City | \$3,841 | \$11,524 | \$19,207 | \$26,889 |
| | Multiple | \$196,932 | \$590,797 | \$984,662 | \$1,378,527 |
| Cable | City | \$51,705 | \$155,115 | \$258,525 | \$361,935 |
| | Multiple | \$81,214 | \$243,643 | \$406,072 | \$568,501 |
| Digital Services | City | \$41,990 | \$125,970 | \$209,950 | \$293,930 |
| | Multiple | \$414,159 | \$1,242,477 | \$2,070,794 | \$2,899,112 |
| Total | | \$1,558,188 | \$4,674,564 | \$7,790,941 | \$10,907,317 |



UUT - Implementation

- UUT paid by users to utility providers
- Enter into an agreement with a UUT consultant
 - Discovery, collection, reporting and audit services
- Providers remit to cities monthly or quarterly
- Service delivery and consumption patterns are changing
 - Increase in wireless voice, data and video usage recently
 - Increase usage of streaming services
 - Work-from-Home Landscape – increase water, wastewater, electric and telecom services at home
 - Increase in prepaid wireless services



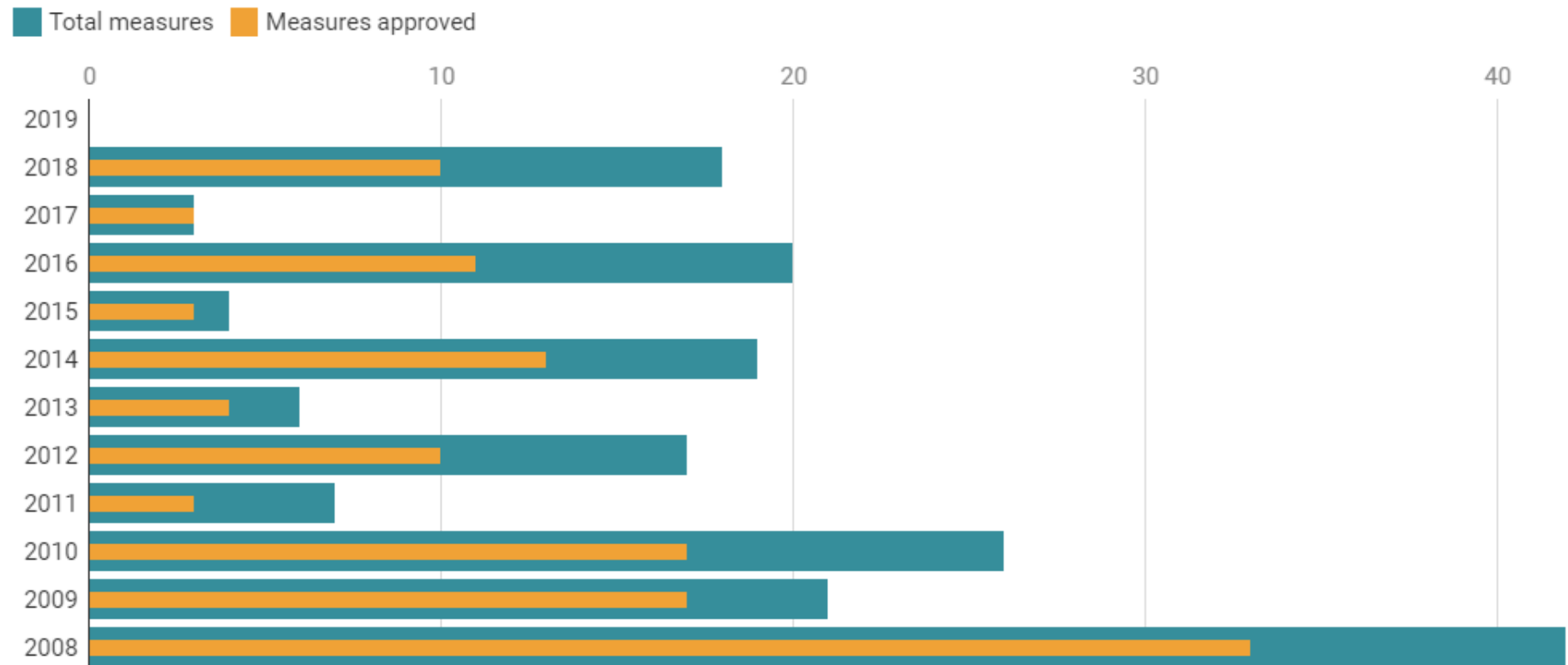
UUT - Benefits

- UUTs have yielded a large portion of General Fund revenues for cities over the years
- Most UUTs are general purpose taxes and be used on a variety of municipals services and capital projects
- Tax can be levied on multiple utilities
- Fairly easy to track and administer
- Tracks with inflation of utility services
- Applies broadly (homeowners, renters, businesses)
- Not as sensitive to economic downturns as other taxes



UUT – Voter Approval Trends

Local UUT Revenue Measure Approval in California





III. Financing Options



5. Community Benefits

- YouTube Phase 1
 - \$35 per square foot
 - Projected payment of \$15,400,000
 - Timing: by FY 22-23 (projected)
- Mills Park
 - Projected payment of \$10,000,000
 - \$6,000,000 initial payment anticipated in FY2021-22 (projected)
 - \$4,000,000 final payment anticipated in FY2022-23

Total projected future community benefit funds available
\$25,400,000



6. Measure G District Sales Tax

- ½ cent sales tax district measure (general purpose)
- New tax rate takes effect on April 1, 2020
- Tax rate increase from 9.25% to 9.75%
- Anticipated to generate approximately \$4 Million annually (pre-COVID)
- FY2020-21 budget projection of \$2.9 Million with gradual increase during the next 4 years
- Citizen's Oversight Committee review
- Consider direct allocation or loan to fund FTTH



7. Debt Issuance

- Issue debt to finance FTTH
 - Lease Revenue Bond (public offering)
 - Lease Purchase with private financing company
- Loan duration between 15 to 30 years
- Annual debt service payment amount range between \$600,000 to \$1,000,000
- 3 month estimate to secure financing
- Favorable financing rates
 - Between 2.5% to 3% for similar, recent debt issuances
- Given the negative fund balance in CityNet Services, the debt would be pledged with the General Fund



Impact on Debt Portfolio

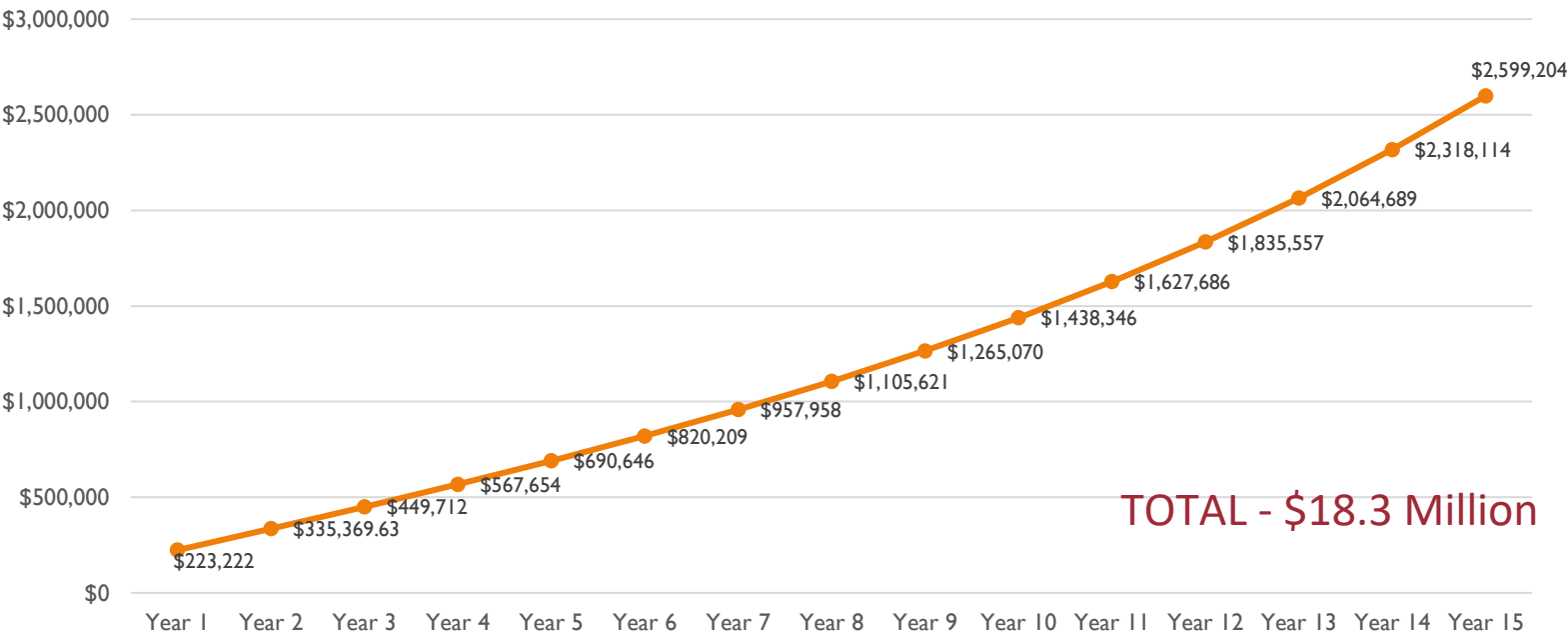
| Debt Metric | Target | FY2020-21 Budget | Revised with FTTH |
|---------------------|--|------------------|-------------------|
| Debt Level | <\$2,000 per capita | \$291.82 | \$556.98 |
| Debt Level | <3% debt to market value assessed properties | 0.21% | 0.41% |
| Debt Service Burden | <8% of Total General Fund Expenditures | 4.8% | 6.1% |

- FTTH Financing Assumptions
 - \$12 Million capital project
 - 30-year duration
 - \$600,000 annual debt service payment
- Revised metrics still within targets, but may limit the City's ability to issue debt for future projects



Fiber Project – Internal Revenue Generation

Revenue Increases From Fiber Plan Implementation



| Subscriber Growth Projections (% of San Bruno Market) | | |
|---|--------|---------|
| Conservative Model | Year 1 | Year 15 |
| CityNet Market Share | 45% | 56% |
| Market share contributed by Fiber Plan | 3% | 20% |



Revenue & Financing Key Takeaways

1. The subscription fee or surcharge implementation can be implemented quickly.
2. A UUT will take up to 2 years to implement
 - Requires voter approval
3. Debt financing will require the backing of additional, dedicated revenue to minimize the impact on other funding sources
4. DIF, Community Benefit and Measure G funds can be used for many priority projects
 - Replenishment of reserves
 - Fire Station 51 and 52 and many other capital projects



Revenue & Financing Key Takeaways

5. If Council wants to move forward quickly, best course likely involves a combination of revenue and debt issuance strategies

For example,

- 5% Surcharge on subscription fees (implement w/ Council or CM Action)
 - Annual Rev \$541K
- Issuance of \$12M Debt
 - Annual Deb Service \$600K
 - Leverage Measure G and/or General Fund to pay annual debt service payment
- Allocate DIF, Community Benefit and/or Measure G funds to reduce debt burden



IV. Discussion, Next Steps & Questions



Request to City Council

- Provide guidance to staff on the revenue generating and financing options for the Fiber-to-the-Home project

Discussion & Questions





THE END